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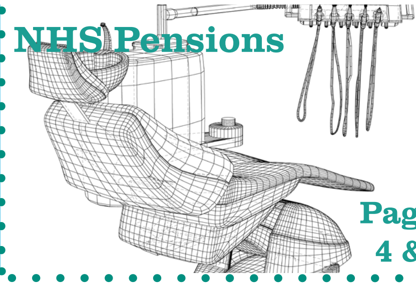

NHS Pensions

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Welcome to Spring!

Here we are into March 2023 already!

There seems to be so much going on at the moment that there is no shortage of topics to talk and write about, however, for our Spring 2023 edition I have chosen articles that are subjects I get asked about frequently and hopefully we have a good mix!

The Spring budget was on Wednesday 15 March 2023, which unfortunately meant it was too late for us to include coverage in this newsletter before we needed to send to print.

However, we have done our usual budget update which is published on our website to keep everyone updated on the latest changes. If you're a Dodd & Co client signed up to receive marketing updates this should have already landed in your inbox, if not check out the website to read our commentary (and pop us an email to opt in to receive future publications).

NHS Pensions continues to be a topic that comes up with many of our clients with the rise in inflation rates and the threat of large annual allowance charges. My fellow Dodd & Co partner, Simon Kirkbride has an update on pages 4 and 5. We are very lucky to have such great expertise within our team to look at such complex issues.

I hope you enjoy reading our newsletter and as always if there is anything you'd like to discuss in more detail, get in touch.

Heidi Marshall
Partner
heidi@doddaccountants.co.uk
01768 864466
@heidi__marshall
@heidi-marshall

Biting costs of wage increases

The National Minimum Wage (NMW) is due to increase from April, a welcome change for millions as the cost-of-living crisis continues to bite. However, it is an additional burden for employers with a knock on impact for the rest of the team. The new rates you must pay your workers from 1 April 2023 are:

Rate from 1 April 2022	Rate from 1 April 2022	Rate from 1 April 2023	Increase %
National Living Wage (NLW) for workers 23 and over	£9.50	£10.42	9.7%
21-22 year old rate (NMW)	£9.18	£10.18	10.9%
18-20 year old rate (NMW)	£6.83	£7.49	9.7%
16-17 year old rate (NMW)	£4.81	£5.28	9.7%
Apprentice rate	£4.81	£5.28	9.7%

Many employers who have previously advertised positions “above” the minimum wage may find their rates not as appealing now with these increases, which could possibly highlight a bigger problem as skilled workers demand a higher pay rate. As an example:

In 2021/22 a Trained Dental Nurse (aged over 23) in a private practice was on average paid £11.30 ph – this WAS above the NMW by £1.80 ph.

From April 2023 the same Trained Dental Nurse will be paid 0.88p ph above the NMW if their pay remained the same.

For some people your “above” the NMW hourly rate doesn’t feel quite as rewarding as it did previously.

If you were to increase this pay, at the same level as the NMW from April 2023, the trained dental nurse would be earning £12.40 ph.

We know from our previous pay surveys that dental practices are generous employers with many of you offering benefits to your staff such as cut-price dental treatment, extra holiday days, paying more than statutory sick pay, treating staff to a Christmas party, or paying out a bonus. It will be more important than ever to highlight these staff perks in your recruitment campaigns to ensure you employ and retain the right staff for a successful practice.

Contact Helen Tyson, Payroll Manager 01768 864466

The return of interest payments to savers: Is this good news?

In the last 6 months or so we have seen the return of interest being paid on most deposit accounts. This is positive news finally for surplus cash on deposit although we need to consider the long-term impact that inflation has on cash.

Whilst it is imperative that each person/business has sufficient cash available on deposit, we have seen a tendency to retain cash levels way in excess of agreed emergency levels for a number of reasons.

The positive news is that we are seeing some business deposit accounts paying over 2% in interest, this is something we haven't seen for a long-time unless that cash has been tied up for a fixed term.

The main issue is that while we are now starting to see interest being paid, the difference between interest rates (current Bank of England base rate in February 2023 set at 4%) and inflation rates (10.1% announced for February 2023) is that there is still a significant impact on purchasing power or the lack of it.

Cash is seen as safe because it offers some certainty. If you lock away £100,000 in a cash savings account, it may not grow much in value, but 10 years later, you are still (relatively) certain to have £100,000 in cash. The problem is that your £100,000 won't have the same buying power.

While cash returns tend to be lower than inflation, investment returns, from properly managed portfolios invested outside of cash, can be much higher. With investment, your capital is at risk and can go down as well as up in value. However, it is by taking that risk that beating inflation over time becomes a possibility.

We would not urge you to simply move your wealth from one asset class to the other. There are various considerations, including: what emergency fund do you consider to be sufficient to cover your short term needs? What portion of your wealth would you be willing to put at a capital risk? What level of risk can you accept? Whether you need an income; and the really important point of how long you're prepared to commit your money for.

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Contact Phil Jackson, Independent Financial Adviser 01768 864466

NHS Pensions - Annual Allowance "Fix" At Last?

Over the last 12 months or so, there has been a lot of concern among dentists in relation to the rising inflation rates and the impact this has on their NHS pension growth and subsequent annual allowance tax charges.

By way of a quick recap, the annual allowance is a £40,000 limit (which can be reduced/tapered for those with taxable income over £200,000) which your NHS pension growth (plus any private pension contributions) is monitored against. Tax charges can arise if your NHS pension growth (plus any private pension contributions) exceeds the annual allowance.

To calculate NHS pension growth, your pension is effectively valued for tax purposes at the start of each year and then again at the end of the year and in broad terms the difference between these two valuations is your pension growth figure. Historically, there have been essentially two main factors that can affect the level of your pension growth. Firstly the level of the income that you pension, and secondly inflation rates which NHS pensions use to apply the annual pension uplift. It is this second factor that has been causing concern recently and what has now prompted the so called "pension fix".

The calculations are complex, but in general when inflation increases, this tends to result in a high level of pension growth and therefore an increased risk of annual allowance tax charges. In the current 2022/23 tax year we have seen inflation rates that are the highest they have been in 40 years. The relevant inflation rates for annual allowance pension purposes increased from 3.1% (Sept 2021) to 10.1% (Sept 2022) which is unprecedented and was likely to produce some incredibly high NHS pension growth figures. We were therefore expecting to see some significant annual allowance tax charges for the year. In addition, it was likely that a lot of dentists previously not affected by the annual allowance were likely to find themselves with issues for 2022/23.

After mounting pressure from the BDA, the government released a consultation in December 2022 which proposed a "pension fix". Hot off the press as of the time of writing, it has now been confirmed (early March 2023) that this fix will go ahead as planned. This fix will effectively remove the inflation element from the annual allowance calculation and only monitor pension growth in excess of inflation which was arguably the policy intention in the first place.

This is a very welcome change and it is good to see the government take action on this after listening to the widely publicised issues that were on the horizon for many dentists across the country.

The way the calculations will now work should actually result in a relatively low year of NHS pension growth for 2022/23 for most members so the significant annual allowance charges that were feared are now likely to be much reduced.

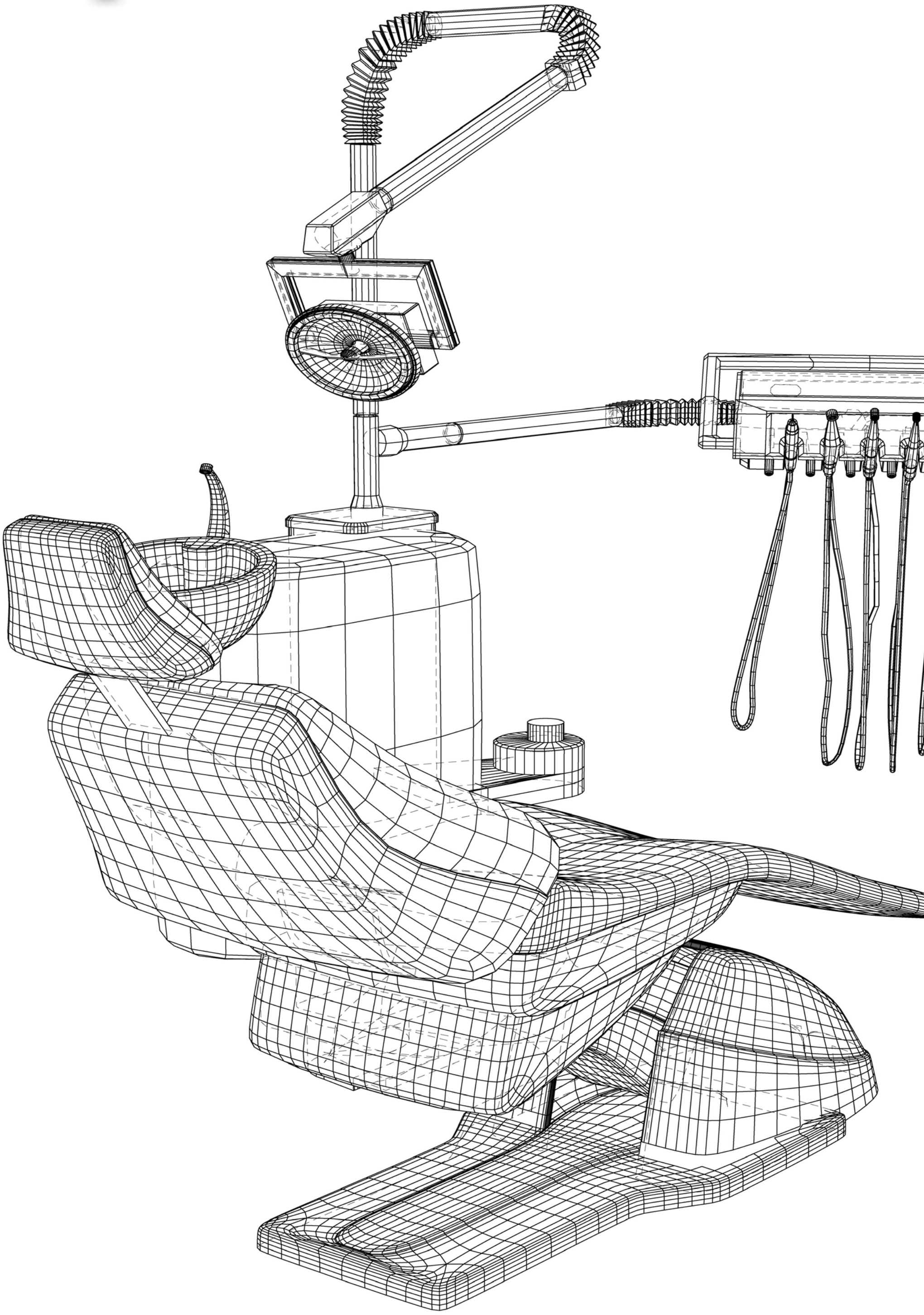
Whilst this pension fix is very good news, it is worth noting that it does not mean that annual allowance issues have suddenly disappeared for everyone. Dentists with high NHS income and/or significant NHS pension pots, or those with taxable income over £200,000 who are subject to a tapered annual allowance, are all still at risk.

As specialist dental accountants we have the NHS pension expertise in our tax team to monitor your NHS pension growth against the annual allowance each year and provide proactive advice in relation to mitigation strategies.

If you would like to speak to one of our specialists please feel free to give us a call on 01768 864466 or email hello@doddaccountants.co.uk.

Contact Simon Kirkbride, Tax Partner 01768 864466

McCloud Update



The other area of interest at the moment with regards to NHS pensions is the McCloud remedy. As you may know, members of the NHS pension scheme were transitioned into the new 2015 pension scheme from April 2015, with older members being transitioned later, and some members already nearing retirement being exempt completely from the new scheme. The main difference between the previous 1995 pension scheme and the new 2015 pension scheme is the normal retirement date, which is age 60 for the 1995 pension and linked to state pension age for the 2015 scheme.

The McCloud case was based on age discrimination and the government are now remedying this by reverting all members back into the 1995 pension scheme for the seven-year period from April 2015 to March 2022. All members will then join the 2015 pension scheme from April 2022 regardless of age.

Annual allowance calculations will need to be reworked for this whole seven-year remedy period which is likely to result in reduced annual allowance charges for most members and therefore potential refunds of overpaid annual allowance tax charges (or reductions to scheme pays elections). Some members will however see an increase to their annual allowance charges for this period after the remedy. In these cases, there should be the option of using scheme pays to cover these additional charges if necessary.

NHS pensions are currently working on a plan to implement this remedy and we are hoping for more details on this by October 2023.

Basis Period Reform

Many of us will have breathed a sigh of relief when the Government announced that the introduction of Making Tax Digital for Income Tax Self Assessment (MTD ITSA) was being delayed until April 2026 (it had been scheduled for introduction from April 2024). However, one side-effect of MTD ITSA that was not delayed was Basis Period Reform.

Basis periods dictate the way in which the profits of an unincorporated trading business (sole trades and partnerships) are allocated to tax years. Historically the basis period has been determined by the accounting period which ends in the tax year in question. So by way of an example, a sole trader who prepares her accounts for the year to 30 June 2022 would report those profits in her 2022/2023 tax return and they would be taxed accordingly.

However, for the 2024/2025 tax year onwards, the basis period rules are being reformed such that all unincorporated businesses will be taxed on their trading profits in line with the tax year. So in the case of our sole trader, if she continues to prepare her accounts to June each year, the 2024/2025 tax year would include 3/12 of the profits for the period to 30 June 2024, and then 9/12 of the profits for the period to 30 June 2025.

Arguably the main difficulty with these changes lies in the 'transition year' of 2023/2024. This will require a business to not only assess profits to its normal accounting date, but to also identify additional "transitional' profits". The transitional profits will be calculated by taking the profit covering the period from the end of the 'normal' accounting period through to 5 April 2024, and then deducting any overlap profits available (which are essentially profits that were taxed twice at the outset of the business).

Sarah's sole trade business has a 30 June year end and now consistently makes a profit of £50,000. The business was not as profitable at the outset, and she has £7,500 of overlap profits brought forward.

Sarah's transitional profits are calculated as follows:

Period 1 July 2023 to 5 April 2024 - 9/12 x £50,000 =	37,500
Less overlap profits available	(7,500)
Transitional profits	£30,000

The default position is that the transitional profits will be spread over 5 tax years in order to mitigate the cashflow impact of the additional tax charge which could arise.

Assuming Sarah's 'ordinary' profits remain consistent at £50,000, her assessable profits and income tax liability would be as follows for the 6 tax years beginning with 2022/2023.

Tax Year	2022/2023	2023/2024	2024/2025	2025/2026	2026/2027	2027/2028
	£	£	£	£	£	£
Ordinary profit	50,000	50,000	50,000	50,000	50,000	50,000
Transitional profits (£30,000 / 5)	0	6,000	6,000	6,000	6,000	6,000
Personal allowance	(12,570)	(12,570)	(12,570)	(12,570)	(12,570)	(12,570)
Taxable income	£37,430	£43,430	£43,430	£43,430	£43,430	£43,430
Tax due at 20% (first £37,700 of taxable income)	7,486	7,540	7,540	7,540	7,540	7,540
Tax due at 40% (taxable income over £37,700)	0	2,292	2,292	2,292	2,292	2,292
Total income tax due	£7,486	£9,832	£9,832	£9,832	£9,832	£9,832

What we can see here is that Sarah, who previously had no exposure to higher rate (40%) tax, will suffer higher rate tax on almost all of the transitional profits.

Thankfully HMRC took on board concerns that the transitional profits could result in taxpayers suffering a High Income Child Benefit Charge (which applies where the household's higher earner's income exceeds £50,000), and made some technical changes which remove this risk. However the changes they made do not prevent the transitional profits from causing the tax-free personal allowance to be tapered where income exceeds £100,000, and so higher earning businesses may suffer further increased tax charges because of this.

It is however possible to elect to accelerate the additional profits, and the taxpayer can pick any figure to bring forward into an earlier tax year. This may be helpful if for example the business has reduced taxable profits in one of the 5 years during the spreading period.

Continued...

Basis Period Reform

Sarah has decided she will simply draw up her accounts to 5 April with effect from the year ended 5 April 2024. In the year to 5 April 2025 she spends £25,000 on equipment which qualifies for the Annual Investment Allowance (100% tax relief) which reduces her 2024/2025 taxable profit to £25,000. She decides to elect to accelerate the assessment of the transational profits so that all of the remaining transitional profits are assessed in the 2024/2025 tax year.

Tax Year	2022/2023	2023/2024	2024/2025	2025/2026	2026/2027	2027/2028
	£	£	£	£	£	£
Ordinary profit	50,000	50,000	25,000	50,000	50,000	50,000
Transitional profits	0	6,000	24,000	0	0	0
Personal allowance	(12,570)	(12,570)	(12,570)	(12,570)	(12,570)	(12,570)
Taxable income	£37,430	£43,430	£36,430	£37,430	£37,430	£37,430
Tax due at 20% (first £37,700 of taxable income)	7,486	7,540	7,286	7,486	7,486	7,540
Tax due at 40% (taxable income over £37,700)	0	2,292	0	0	0	0
Total income tax due	£7,486	£9,832	£7,286	£7,486	£7,486	£7,486

By making the election to accelerate the transitional profits, Sarah has significantly reduced the level of profits that are subject to higher rate tax.

Naturally it will not always be practical or desirable for large sums to be spent on equipment. There are however other alternatives that could be considered to mitigate the impact of the transitional profits, such as making personal pension contributions (which extend the basic rate tax band and reduce the amount of income that is exposed to higher rate tax), or using farmers averaging.

From a practical viewpoint, we would envisage most businesses changing their accounting date to 31 March or 5 April in order to avoid the complication of having to apportion two different accounting periods to a tax year. However there may be some businesses which have year-ends other than 31 March or 5 April for good commercial reasons, perhaps because a certain time of year is more appropriate to carry out a stock-take. These business may decide to retain their current accounting year-end, and simply accept the additional administrative burden that these changes have caused.

Finally, although MTD ITSA has now been delayed, the Basis Period Reform does still highlight the importance of maintaining 'real time' accounting/management data. For example a profitable partnership which may have historically drawn up accounts to 30 April each year so that the partners had 11 months to draw up the accounts and tax computations for the tax year in question and consider making a personal pension contribution (before 5 April the following year) will no longer have that luxury. However, if the business keeps accurate accounting/management data then they should be able to plan their tax affairs on a real-time basis without needing to rely on the benefit of hindsight.

Cash is King

Rob Oliver
Dental Accountant
rob.oliver@doddaccountants.co.uk

I spent several years working for an insolvency practitioner before joining Dodd & Co as a dental accountant.

Lack of sales, demand for services or being outdone by competitors are rarely the reasons that businesses find themselves in financial difficulty. Sadly, many find that the simple reason is that they have ran out of cash and can no longer afford to meet their debts as they fall due. It is a stressful position to be in and one that I want you to be able to avoid.

On paper this can happen to a profitable business that finds their cash tied up in outstanding debtor balances, buying materials in large quantities which results in high stock holdings, paying suppliers faster than necessary under credit terms or buying significant equipment assets with cash up front.

If you feel that you are constantly checking your online bank balance or utilising an overdraft facility, then a cash management review together with a business cash flow projection is a fantastic place to start. Cloud and bespoke cash flow projection software is available that can be regularly tweaked so that you can foresee what your likely cash balances will be. These cash flow tools are also useful if you want to plan around the potential impact of say employee wage increases or taking out loans to finance refurbishments or new assets.

So why is cash king? Without cash the cogs of your business can grind to a halt. I want to help keep all the wheels in motion so that you can concentrate on what you are passionate about - treating patients!

Please contact me if you would like to discuss cash management or cash flow projections.

Employment Status of Associates

by Heidi Marshall

This topic has been widely talked about since I entered the world of dentistry over 15 years ago. I've never really given it much weight until recently.

To be clear: The tax rules around employment are different to the legal/HR rules. I can obviously only comment on the matter from the tax point of view.

For as long as I have known there has been a small piece of guidance on the HMRC manuals (ESM4030) that states "It should be noted that there are standard forms of agreement for 'associate' dentists which have been approved by the British Dental Association (BDA) and the Dental Practitioners Association (DPA). These agreements relate to dentists practising as associates in premises run by another dentist. Where these agreements are used and the terms are followed, the income of the associate dentist is assessable under trading income rules and not as employment income. In these circumstances the dentist is liable for Class 2/4 NICs and not Class 1 NICs".

For this reason, associates have generally had a safety net and their tax employment status has rarely been in question. From April 2023, however, this HMRC guidance is being removed and practices will need to self-assess their associates' employment status using the Check Employment Status for Tax (CEST) tool, as all other industries do.

I don't consider this to be a major disaster like some press coverage would have you believe – if your associates are/were self-employed then as long as you can justify this status you should be able to continue on this basis. If you haven't assessed their status/looked at their contracts in a long time though, now is a very good time to do it.

Employment status from HMRCs point of view is all about control - who carries the risk, who tells you when to work? Who tells you what to do? Can you send a substitution to work? Generally, if an associate has lots of clinical freedom, loses income if a patient doesn't turn up and can send a locum on his behalf then he is likely to be self-employed. It is key that it is not just the terms of their contracts that matter but what is actually happening day to day.

The best advice is to ensure your contracts are up to date (or that you have them in the first place!) and that they actually reflect what you are doing in practice, then use the HMRC CEST tool to check their status. If HMRCs opinion from the tool indicates a self-employed status, print out the result and keep it on file to produce if there is ever an enquiry from HMRC in the future. That way you can be sure you are dealing with your associates in the correct way.

The HMRC CEST tool can be found at https://www.gov.uk/guidance/check-employment-status-for-tax

Contact Heidi Marshall, Partner 01768 864466

Associates - what should I send my accountant?

5 April is fast approaching bringing with it the end of the tax year. It doesn't have the same excitement, fireworks and celebrations as the end of the calendar year, however, both often have people making resolutions around their finances and getting organised with paperwork.

So what paperwork does your accountant (hopefully us!) need to prepare your associate accounts and tax return?

We will need:-

- ✓ Associate income schedules
- ✓ Details of professional subscriptions
- ✓ Details of indemnity insurance premiums
- ✓ Details of professional course fees
- ✓ Details of travel costs and expenses related to courses or other business journeys. Travel to and from a permanent place of work is not allowable
- ✓ Details of interest earned
- ✓ Details of dental or office equipment purchases that are for your business
- ✓ Details of telephone costs
- ✓ Details of uniform costs
- ✓ Details of other taxable income and expenses e.g rental properties
- ✓ Details of your student loan balance
- ✓ Details of any child benefit you claim
- ✓ Details of training costs (training which updates existing knowledge, not teaches new knowledge)
- ✓ Details of any income from other employment (P60s / P45s / P11ds and payslips)

The sooner after 5 April you can get the information to your accountant the earlier your accounts and tax return can be drafted. This will help enable you to plan HMRC tax payments and potentially plan other financial decisions. Your accountants will also be incredibly grateful as, to let you in on a trade secret, April and May are a little quieter than the summer onwards!

We would be more than happy to have a chat to you about the records you need to keep and forward to us so please do get in touch if you have any queries.

Meet Emma

Contact: 01768 864466
Email: emma.hind@doddaccountants.co.uk

Emma Hind

Many of our clients will already know Emma, as she's been with Dodd & Co for 11 years now. Emma is one of our dental accounting specialists and her working week is spent exclusively on the accounting and business services for dentists. Emma has a can do attitude and absolutely loves a challenge, rarely gets stressed and is a calming influence on the Penrith accounts team.

What did you do before you started at Dodds? I came here straight from school! I left Ullswater Community College after my A Levels and started an AAT apprenticeship with Dodd & Co.

What's a typical work day like? With my own client list, you never know what the day will bring. I could be dividend planning including finding the most tax efficient way to extract funds from a company, looking into the benefits of a client incorporating or preparing accounts. I love the variety and no one day is the same.

What's the best part of your job? Finding ways to make our clients lives easier, we know doing the accounts can be quite daunting, dentists are not accountants and I definitely cannot do a filling! For example, I look at a client's accounting systems and make recommendations to help with the efficiency of doing the books, that could be anything from an excel spreadsheet to recommending, implementing and training you on a cloud accounting software package.

And the worst? When I have to give a client a huge tax bill just before the payment deadline. The earlier clients can provide us with their accounts information, the earlier you'll know where you stand and have plenty of time to prepare for the tax payment deadline. Cloud accounting systems particularly help with the efficiency of getting the "paperwork" to us.

Do you have a top tip for clients? Get us involved in your decision making. When it comes to financial decisions, if you're thinking about purchasing a new practice, or even a new car, ask us – make sure you make the most tax efficient decisions. The more we know about you, your business and your future plans, the more powerful our relationship can be. We can help you along the way, and potentially save you tax – something we all want!

What's life like outside of work? With 2 young boys at home, outside of work I'm usually playing football and running around after them! We also make time to explore our beautiful surroundings here in the Lake District.

dodd&co chartered accountants

Email us at hello@doddaccountants.co.uk

Clint Mill
Cornmarket
PENRITH
CA11 7HW

T: 01768 864466

FIFTEEN Rosehill
Montgomery Way
Rosehill Estate
CARLISLE CA1 2RW

T: 01228 530913